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FOOD COSTS

RETAIL, FARM, MARKETING



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2 U. S. DEPARTMENT OF AGRICULTURE, ECONOMIC RESEARCH SERVICE

70 MISCELLANEOUS PUBLICATION NO. 1133

The consumer, the food trade, and the farmer view food costs with continuing interest from different viewpoints.

The farmer is interested in two components of retail food prices: the prices which he receives for producing the commodity and the spread (margin) between his prices and the retail price of food.

The food trade—including food processors, wholesalers, and retailers—is concerned with the costs and profits associated with getting food to the consumer. Consumers think about retail food prices and what their food dollar will buy.

This booklet summarizes the major trends in farm and retail prices of farm foods, marketing costs, and the relation between food expenditures and consumer incomes. It shows, for example, that the rise in food prices in recent years has been caused both by higher marketing costs and farm prices. The increase in food costs since 1964 has been more rapid than it was during the early 1960's. Even so, retail food costs have increased less than the Consumer Price Index of all goods and services. Incomes also have risen more than food prices so that less work is required to buy food now than in 1957-59.

The Economic Research Service measures changes in food costs by pricing a market basket of food. The MARKET BASKET contains the average quantities of farm-originated foods purchased annually in 1960-61 per household by urban wage-earner and clerical-worker families and single workers living alone. It does not include imported foods or other foods not originating on American farms. The qualities and kinds of foods used in the market basket are held constant for long periods of time so that the measurement of changes in cost of food is not affected by shifts in consumption.

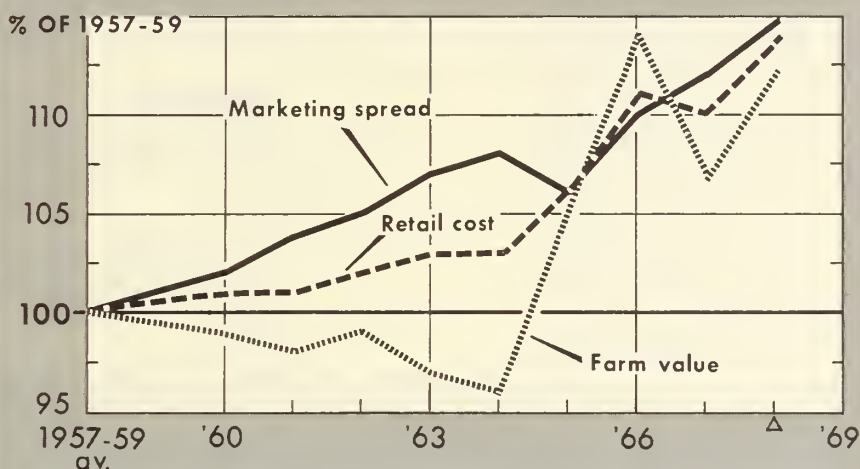
The foods in the market basket are valued at current retail store prices to arrive at the RETAIL COST of the food basket. Since the same quantity of food is priced over several years, the cost of the market basket measures changes in food prices. Thus, the terms cost and price are frequently used interchangeably. The FARM VALUE—calculated from farm product prices—is the payment to farmers for the farm products equivalent to foods in the market basket. The MARKETING SPREAD is the difference between the retail cost of the foods in the market basket and their farm value. It consists of all costs of moving products in the market basket from the farmer to the consumer, including those of assembling, processing, transporting, and distribution.

February 1969⁵²

Supersedes FOOD COSTS: Retail Prices, Farm Prices, Marketing Spreads—M.P. No. 856

For sale by the Superintendent of Documents, U.S. Government Printing Office
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RETAIL COST, FARM VALUE AND MARKETING SPREAD FOR FARM FOODS



MARKET BASKET OF FARM FOODS PURCHASED ANNUALLY PER HOUSEHOLD IN 1960-61 BY URBAN WAGE-EARNER AND CLERICAL-WORKER FAMILIES AND SINGLE WORKERS LIVING ALONE. Δ PRELIMINARY.

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NEG. ER5 5659-68 (11) ECONOMIC RESEARCH SERVICE

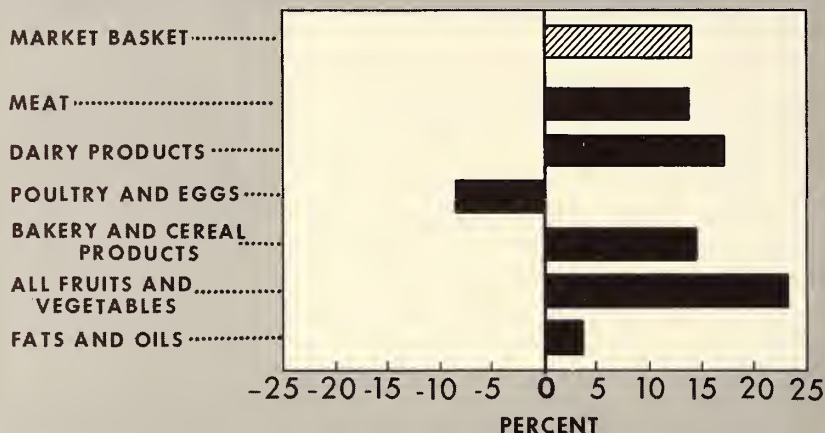
Higher Marketing Costs and Farm Prices Raise Retail Food Costs

Prices paid by consumers for farm foods in 1968 were 14 percent higher than in 1957-59. Prices received by farmers were up 12 percent from the 1957-59 level, and the marketing spread was 15 percent higher.

The retail cost of the market basket of farm foods rose an average of 0.6 percent per year between 1957-59 and 1964 and attracted little public attention. The farm value of these foods declined almost every year and averaged lower in 1964 than in 1957-59. All of the increase in the retail cost of the market basket till then was caused by rising marketing costs. The pattern of price changes in the early 1960's was similar to the long run trend of the postwar period.

But between 1964 and 1968, retail food costs increased 10.6 percent, or an average of 2.5 percent per year. Unlike the earlier period, higher farm prices as well as higher marketing costs contributed to the rise. Farm prices rose sharply in 1965 and 1966 because of reduced production of some foods, particularly meat and dairy products, and a strong demand for food. Underlying the increase in demand were increases in personal incomes, sales to foreign countries, and military requirements. Although the retail cost and farm value of foods in the market basket declined in 1967, they rose again in 1968.

CHANGES IN RETAIL COST OF MAJOR FOOD GROUPS, 1957-59 TO 1968

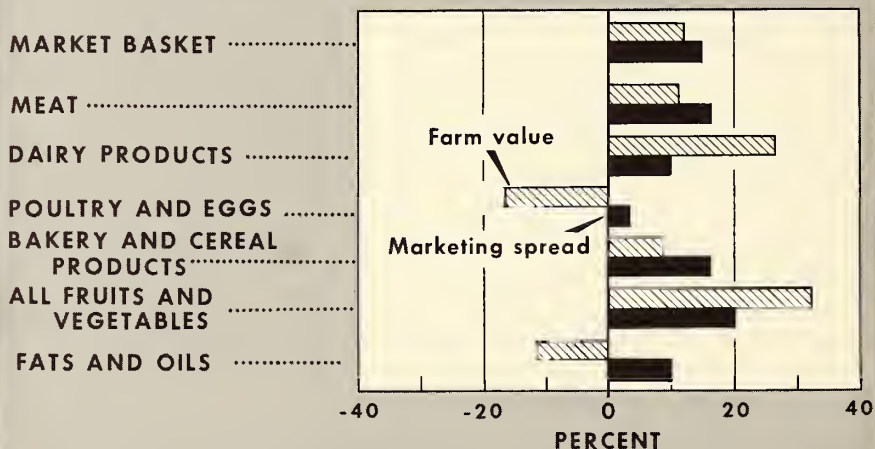


MARKET BASKET OF FARM FOODS PURCHASED ANNUALLY PER HOUSEHOLD IN 1960-61 BY URBAN WAGE-EARNER AND CLERICAL-WORKER FAMILIES AND SINGLE WORKERS LIVING ALONE. 1968 PRELIMINARY.

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CHANGES IN MARKETING SPREADS AND FARM VALUES, 1957-59 TO 1968



BASED ON ANNUAL AVERAGE PURCHASES PER HOUSEHOLD BY URBAN WAGE EARNERS AND CLERICAL WORKERS IN 1960-61. 1968 PRELIMINARY.

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Retail Cost, Marketing Spread and Farm Value Increase for Most Food Groups

Retail cost of all major food groups except poultry and eggs were higher in 1968 than in 1957-59. Most food groups increased by about the same or a slightly higher percentage than the total retail cost of the market basket.

Fruits and Vegetables. Higher farm prices, due to reduced supplies, and an increase in the marketing spread caused an increase of 9 percent in the retail cost of the fruit and vegetable group in 1968 over 1967. Since 1957-59, the retail cost of all fruits and vegetables has increased by a larger percentage than any other product group, 23 percent. Most of this increase, however, was caused by a rise of 38 percent in the retail cost of fresh fruits and vegetables. The marketing spread and farm value of fresh fruits and vegetables both advanced by around the same percentage as the retail cost. Retail prices of processed fruits and vegetables were 11 percent higher in 1968 than in 1957-59.

Dairy. The retail cost of dairy products increased 17 percent from 1957-59 to 1968 because of a 26 percent increase in the farm value and a 10 percent increase in the marketing spread. The farm value of dairy products rose sharply between 1964 to 1968, primarily because of a decline in total milk production, increases in prices of Class I milk in Federal Order Markets and in most State-regulated markets, and an increase in the level at which the Federal Government supports the price of milk for manufacturing.

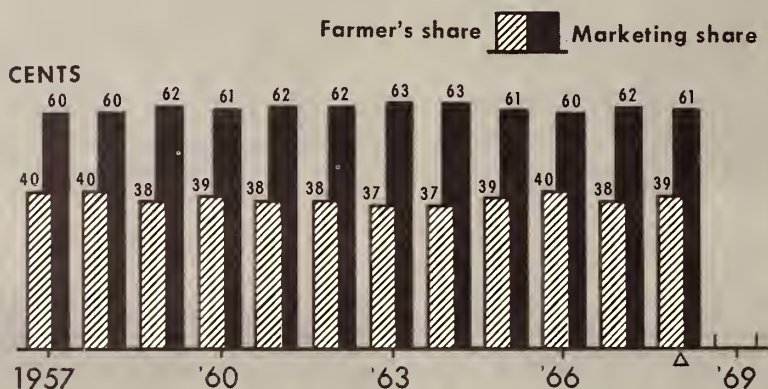
Meat. The retail cost of meat products went up by the same percentage as the market basket retail cost (14 percent) between 1957-59 and 1968. Again, practically all of the rise occurred after 1964. The marketing spread for meat products increased slightly more than the farm value.

Bakery and Cereal. A steady rise in marketing costs was mainly responsible for the 15-percent increase in the retail cost of bakery and cereal products. The marketing spread for bakery and cereal products increased 16 percent while farm value rose 8 percent.

Poultry and Eggs. The retail cost of poultry and eggs was less than in 1957-59 in every year during the 1960's, and in 1968 was 9 percent below the 1957-59 average. The farm value of poultry and eggs dropped 16 percent but an increase of 3 percent in the marketing spread kept the retail cost from declining as much as farm value.

Fats and Oils. The retail cost of fats and oils, such as margarine, has increased only 4 percent since 1957-59. An increase in the marketing spread was responsible for all of the increase.

FARMER'S SHARE OF CONSUMER'S RETAIL FOOD DOLLAR

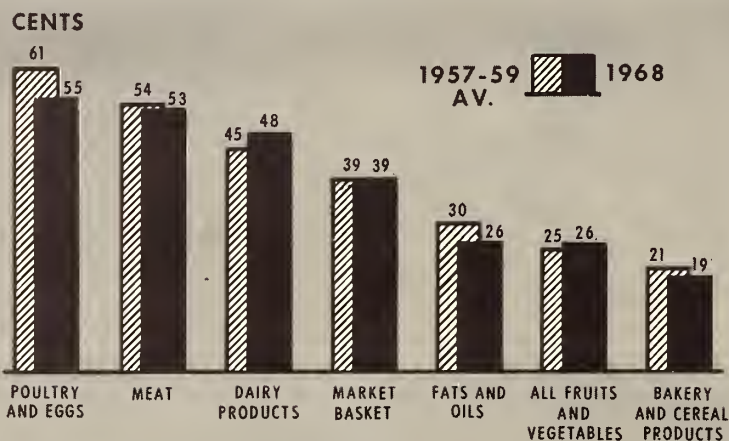


SHARE OF DOLLAR CONSUMERS SPENT IN RETAIL FOOD STORES FOR DOMESTIC FARM-ORIGINATED FOOD PRODUCTS.
▲ PRELIMINARY.

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FARMER'S SHARE OF CONSUMER'S RETAIL FOOD DOLLAR, BY FOOD GROUP



1968 PRELIMINARY.

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Farmer Receives 39 Cents Of Food Dollar

Farmers received an average of 39 cents of the dollar spent by consumers for farm foods in retail stores in 1968, an increase of 1 cent over 1967. This increase occurred because farm value increased more than the marketing spread in 1968. The farmer's share in 1968 was higher than in the early 1960's but about the same as the average of the past 10 years.

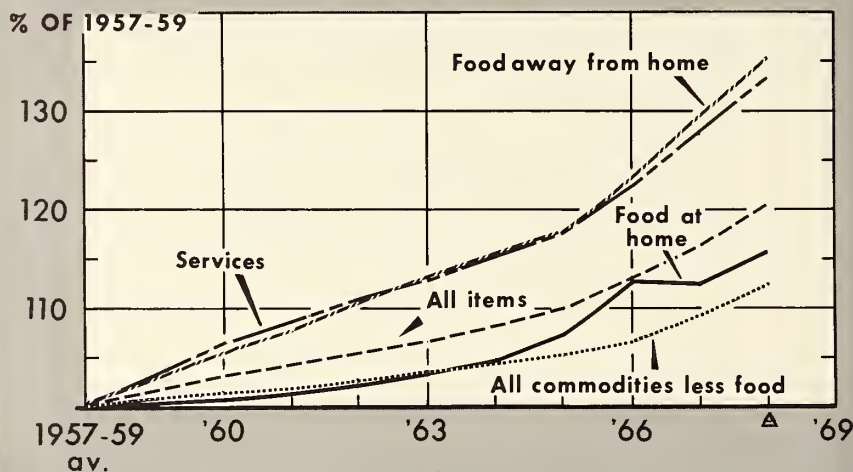
The farmer's share by food groups ranged from 19 cents for bakery and cereal products to 55 cents for poultry and eggs in 1968. The difference in the farmer's share among food groups is due in part to the amount of farm inputs—labor and capital—required during production. The farmer's share is higher for animal products because they generally require more inputs than crops.

What happens to products after they leave the farm also influences the farmer's share. All products need various amounts of processing and packaging, transportation and other marketing services. For the market basket foods, the value added to farm products during marketing amounted to 61 cents of the consumer's food dollar in 1968. Some foods, such as bakery and cereal products and fruits and vegetables, require considerable processing and packaging, or are costly to distribute. This accounts in part for the small share the farmer receives of the dollar spent for these products.

Since marketing costs make up more than half of the food dollar, a change in marketing costs affects retail food cost more than does an equal percentage change in farm value. From 1957-59 to 1968, marketing costs increased by only a slightly larger percentage than farm prices, but marketing costs accounted for about two-thirds of the increase in the retail cost of the market basket.

CONSUMER PRICES

Food, Services, Commodities Less Food, and All Items



CONSUMER PRICE INDEX, DEPARTMENT OF LABOR. ▲ 9-MONTH AVERAGE.

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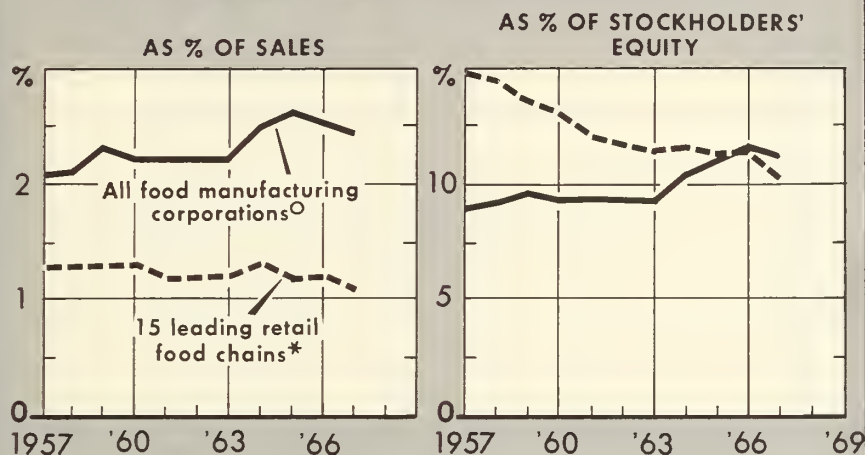
Consumers Price Index Rises More than Retail Food Prices

Retail prices of all foods (farm and nonfarm, domestic and imported food) bought in food stores for home preparation increased 15.5 percent from 1957-59 to 1968 compared with an increase of 20.4 percent in the Consumer Price Index (CPI). The CPI measures changes in prices of goods and services bought by urban wage earners and clerical workers. Changes in prices of food bought for preparation at home are measured by a component of the CPI—the “food at home” index.

As for the market basket of farm foods, most of the increase in the food at home index occurred after 1964. Even with the sharp increases since 1964, the price index for food at home has been below the CPI every year since 1957-59.

Prices of many items, particularly services, have gone up more than the index of food at home. The price index of consumer services—another component of the CPI—which includes such items as rent, mortgage interest, automobile insurance and repair, utilities, public transportation fares, and medical care services, has gone up about 33 percent since 1957-59. Most of the items that have gone up less than food were other commodities. The price index of all commodities except food, which is excluded to make the comparison more meaningful, has risen 12.5 percent or slightly less than retail food store prices.

PROFITS OF CORPORATIONS MARKETING FOOD PRODUCTS



PROFITS LESS TAXES ON INCOME. * COMPILED FROM COMPANY ANNUAL REPORTS AND FINANCIAL PUBLICATIONS.
^o COMPILED FROM REPORTS OF FEDERAL TRADE COMMISSION-SECURITIES AND EXCHANGE COMMISSION.

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Profits of Food Marketing Firms Mixed

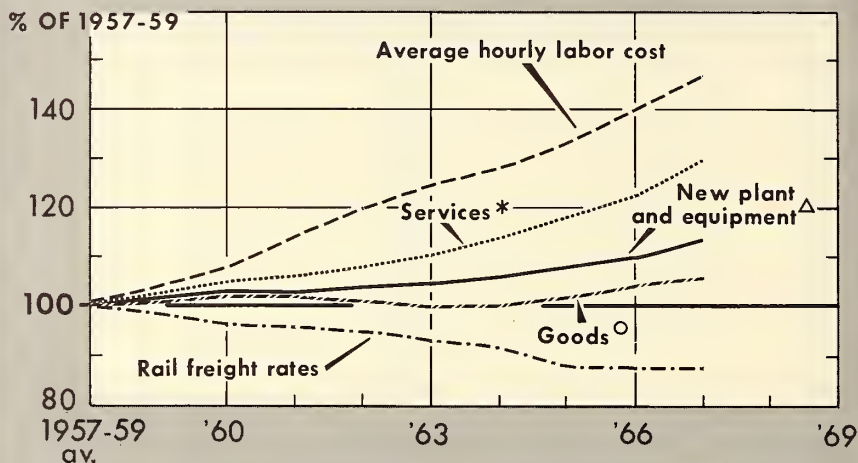
Although increases in food costs are often blamed on higher profits of marketing firms, profits are a relatively small percentage of total marketing costs and usually do not change enough to affect retail food prices significantly.

Profits of leading retail food chains in 1967 declined to the lowest level of the past decade. After-tax profits as a percentage of sales declined to 1.1 percent in 1967. This compares with 1.2 percent in 1965 and 1966 and 1.3 percent in 1957. Profits as a percentage of owner's equity averaged 10.3 percent in 1967 compared with 11.4 percent in 1966 and 14.9 percent in 1957. Possible reasons for the low level of profits are rising costs and intensified competition in the form of discounting and rapid new store expansion.

Profits of corporations manufacturing food as a percentage of owner's equity decline slightly in 1967 after increasing sharply between 1963 and 1966. Food processors earned 11.1 percent on stockholder's equity in 1967 compared with 11.5 percent in 1966. Profits as a percentage of sales averaged 2.4 percent in 1967 compared with 2.5 percent in 1966 and 2.1 percent in 1957. Profits of food processors in 1967, although less than in 1966, were higher than the average of the 1957-67 period.

Over the past decade, profits of food marketing firms as a percentage of stockholder's equity have generally been below the average for corporate firms in other industries.

PRICES OF INPUTS USED BY FOOD MARKETING FIRMS



*RENT, PROPERTY INSURANCE, TELEPHONE, ETC.

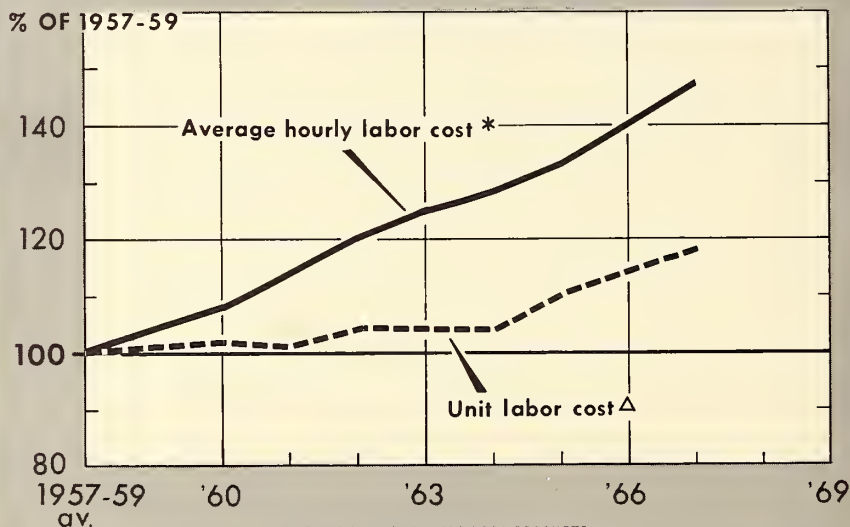
○ CONTAINERS, PACKAGING MATERIALS, UTILITIES, OFFICE SUPPLIES, ETC.

Δ GNP IMPLICIT PRICE DEFLATOR FOR PRODUCERS' DURABLE EQUIPMENT AND NONRESIDENTIAL CONSTRUCTION, DEPARTMENT OF COMMERCE.

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FOOD MARKETING LABOR COSTS



DOMESTIC FARM-PRODUCED FOOD PRODUCTS.

*INCLUDES SUPPLEMENTS TO WAGES AND SALARIES.

Δ LABOR COST PER UNIT OF FOOD MARKETED.

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Rising Prices of Marketing Inputs

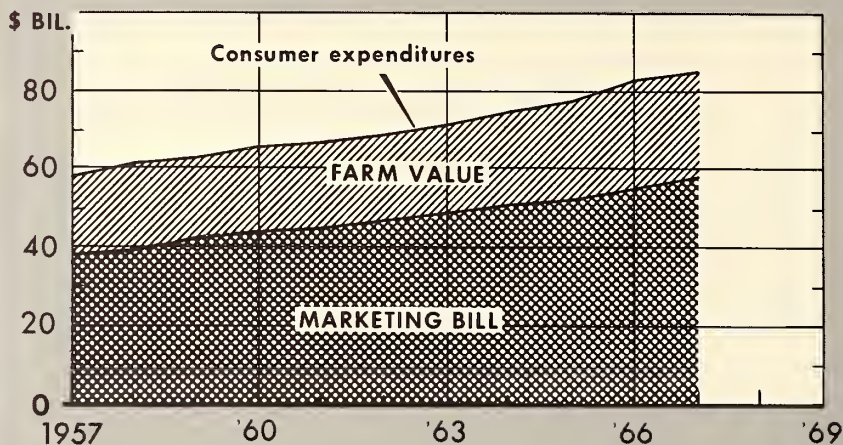
Rising prices have characterized the post-World War II economy. Food marketing firms, like firms in other industries, have been affected. Prices of inputs purchased by marketing firms rose in the 1960's maintaining an upward pressure on marketing spreads.

In 1967, labor cost per hour—wages, salaries, and fringe benefits of persons engaged in marketing farm foods—was 47 percent higher than in 1957-59. This amounts to an average increase of 4.4 percent per year (compound rate). In 1966 and 1967, labor cost in food marketing increased around 5.0 percent or slightly more than the average. The increase in labor cost per hour, however, has been partially offset by gains in productivity resulting mainly from technological improvements in marketing facilities, from increased skill of workers and management, and from economies of scale. For example, output per man-hour in food manufacturing increased at an average rate of 3.8 percent per year from 1957 to 1967. Increases in labor productivity have kept the rise in labor cost per unit of output in food marketing to about 18 percent since 1957-59.

Prices of services purchased by marketing firms, such as rent, property insurance and maintenance, and telephone, averaged 30 percent higher in 1967 than in 1957-59. During the 1960's prices of new plant and equipment have risen 13 percent. Prices of goods, such as containers, packaging materials, fuel and electricity, and office supplies, have been relatively stable during the 1960's. Since 1964, prices of these items have gone up 6 percent.

In contrast to increasing prices for most marketing inputs, railroad freight rates for farm products were lower in 1967 than in 1957-59.

FARM-FOOD MARKETING BILL AND CONSUMER FOOD EXPENDITURES

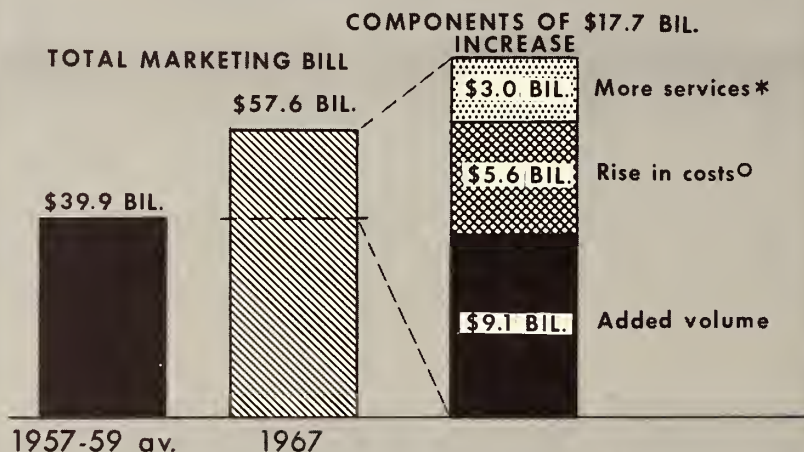


FOR ALL DOMESTIC FARM FOODS PURCHASED BY U.S. CIVILIANS FOR CONSUMPTION, BOTH AT HOME AND AWAY FROM HOME.

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FACTORS IN RISE OF MARKETING BILL FROM 1957-59 TO 1967



MARKETING BILL IS DIFFERENCE BETWEEN CIVILIAN CONSUMER EXPENDITURES FOR FARM FOODS AND RETURNS RECEIVED BY FARMERS.

*MORE MEALS AWAY FROM HOME, MORE PROCESSING, PACKAGING, ETC.

○ WAGE RATES, DEPRECIATION CHARGES, UNIT PROFITS, PRICES OF CONTAINERS, FUEL, ETC.

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The Marketing Bill Grows

Civilian consumers spent \$85 billion for foods originating on U.S. farms in 1967—\$2.2 billion more than in 1966. Farmers received \$27.4 billion for these foods, a decrease of about \$0.7 billion from 1966. The bill for marketing farm foods amounted to \$57.6 billion in 1967, or about \$2.9 more than in 1966. Since 1957, both expenditures and the marketing bill have increased faster than the farm value.

Labor costs accounted for 43 percent of the marketing bill in 1966 compared with 44 percent in 1957. Costs of shipping farm-food products by rail and truck amounted to 9 percent of the bill in 1966 compared with 10 percent in 1957. Profits (before Federal taxes on income) that corporations derived from marketing farm foods accounted for 5 percent of the marketing bill in 1966 or about the same share as in 1957. Overhead costs including depreciation, business taxes, advertising, rent, interest and repairs, bad debts and contributions represented about 17 percent of the marketing bill in 1966 compared to about 14 percent in 1957. The remainder of the marketing bill consists of other costs such as utilities, packaging materials, air and water transportation and noncorporate profits. Together, these items accounted for 27 percent of the bill in 1966 compared with 26 percent in 1957.

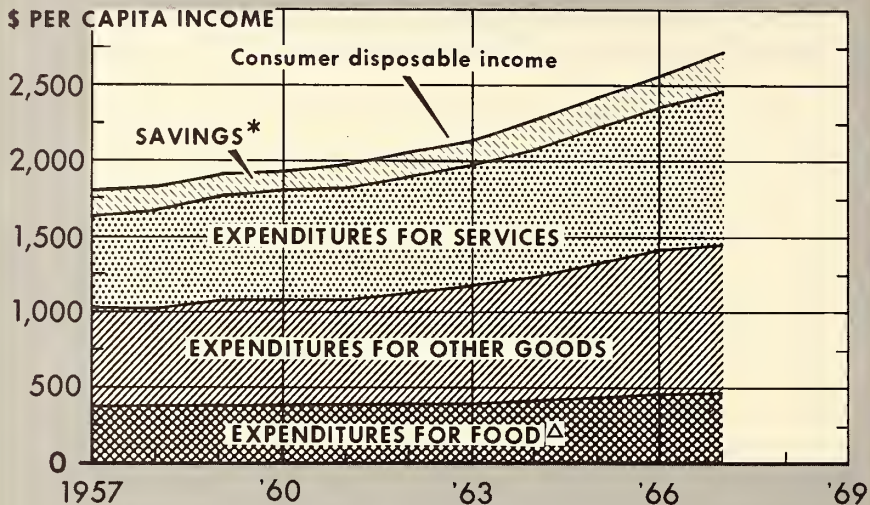
The marketing bill increased around 44 percent between 1957-59 and 1967. Three factors were responsible for the increase: (1) Increases in the volume of food marketed, (2) rising costs, and (3) more services.

The volume of food marketed increased 21 percent between 1957-59 and 1967. This was primarily due to an increase in population. Also, today's consumers acquire more of their food through the marketing system and depend less on home-grown production. The increase in the quantity of food marketed has caused 51 percent of the increase in the marketing bill since 1957-59.

Of most concern is that part of the increase in the marketing bill resulting from rising costs and profits. Rising costs per unit of product marketed are particularly significant because they have been the principal force causing the rise in food prices, despite the bigger role of volume in the growth of the marketing bill. Rising costs—labor, depreciation, advertising, interest, etc. have caused 32 percent of the increase in the marketing bill since 1957-59.

Additional marketing services per unit of product have accounted for the rest of the increase in the bill—or 17 percent since 1957-59. Services refer to all the activities performed by food marketing agencies in getting food to the consumer at the right time, in the right place, and in the right form.

CONSUMER INCOME AND EXPENDITURES



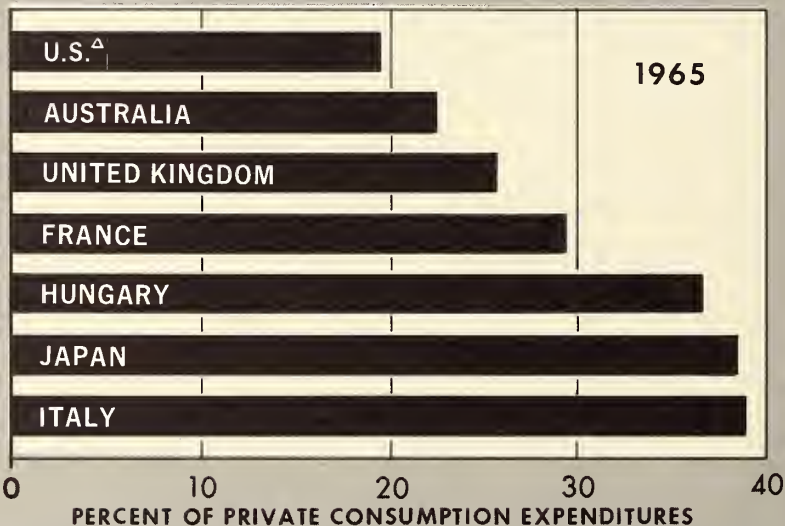
DEPARTMENT OF COMMERCE DATA. Δ EXCLUDES ALCOHOLIC BEVERAGES.

* INCLUDES INTEREST PAID BY CONSUMERS AND PERSONAL TRANSFER PAYMENTS TO FOREIGNERS.

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FOOD EXPENDITURES BY COUNTRY



Δ AS A PROPORTION OF DISPOSABLE PERSONAL INCOME, U.S. FOOD EXPENDITURES IN 1965 EQUALLED 18.2 PERCENT. UNITED NATIONS DATA.

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Food Expenditures Take Smaller Percentage of Income

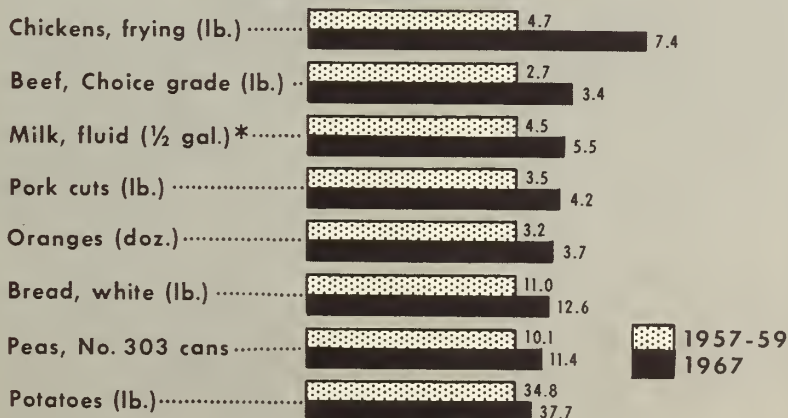
Consumers spent \$477 per person for food in 1967, an increase of 28 percent since 1957. The increase in food expenditures was about $1\frac{1}{2}$ times the rise in food prices during this period. Food expenditures increased more than food prices because consumers shifted to more expensive foods, bought more services with food, and bought more restaurant meals.

Although food expenditures have increased, the real cost of food must be measured against income. Food expenditures have not increased as much as consumer incomes. From 1957 to 1967, income per person increased 52 percent or nearly double the increase in food expenditures. Thus, the percentage of income spent for food declined from an average of 20.7 percent in 1957 to 17.4 percent in 1967.

In terms of the time the wage earner must work to pay for food, he was better off in 1967 than in 1957-59 because wages have risen faster than retail food prices. Thus, a factory worker could buy more of most foods with an hour's wages in 1967.

Food accounts for a smaller percentage of consumer expenditures in the United States than in any other major country. Food represented 19.5 percent of U.S. consumer-expenditures in 1965 (latest available data for comparison). Food expenditures in Western Europe ranged from 25 percent to 40 percent of total consumer expenditures, and in Eastern Europe and Asia they were even higher.

QUANTITIES OF FOOD 1 HOUR OF FACTORY LABOR BOUGHT 1957-59 AND 1967



* SOLD IN STORES.

EXAMPLES OF TODAY'S INCREASED MARKETING SERVICES

More resources are used in maintaining and improving quality and in developing new products to satisfy consumer taste.



Consumers eat more meals away from home.



More foods are being packaged -- many in more convenient and quality-maintaining packages.



Many more products now require less home preparation.



